

## Investment Commentary

- Markets remain in doldrums
- CSSF results competitive
- Investment Managers Fine-tuned

The September quarter was a poor one for Australian and International shares, but reasonable for property and fixed interest. The depreciation of the \$A provided a small cushion to the (continuing) negative returns from the international sector.

The median growth fund (as per InTech Performance Survey) had a return of -5.4%, compared to -5.2% for CSSF, after tax, investment and administration fees. Despite returns for the 9 months being quite depressed, the only “good” news (if one can call it that) is that CSSF’s results are equal to 4th out of 35 relative Funds with whom we can be compared.

October saw sharemarkets continue to fall, but a subsequent rebound suggests that confidence is returning, as GDP and corporate earnings growth become more evident.

The concerns expressed in our previous Newsletter about the possibility of a negative return this year (which would only be the second, in our 44 year history) are ongoing and the Directors are making every effort to optimise the end result, through fine-tuning of our Investment Managers. To this end, the following changes have been made to the panel:

Fidelity, one of our core International managers has been replaced by UBS Global Asset Management.

Perennial Investment Partners Ltd has been allocated a specific “small cap.” mandate (approximately \$12 million) within the Australian equity sector.

Deutsche Asset Management has been allocated a specific hedge fund mandate (approximately \$6 million) within the international sector.

Basis Capital Funds Management has been allocated a specific hedge fund mandate (approximately \$5 million) within the fixed interest sector.

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## Data proves long-term performance

Fund return figures dating back to 1962 dramatically illustrate the fact that in the long term super investments create a viable retirement income, despite volatility in one-year returns.

Mike Murphy, Head of Actuarial Consulting for Aon Consulting, has compiled data for the Association of Superannuation Funds of Australia NSW investment group since the late 1970s.

His numbers show that returns easily outpaced inflation and wage increases, allowing members to maintain their standard of living in retirement.

Market turbulence in any given year is smoothed over time. The depths the markets sank to in the 1970s, during the Whitlam era, even out, as does the impact of the sharemarket dive of 1987.

Even with the negative performance of funds in the current year, the average return over the past 10 years is still 8.7 per cent a year, compared with a 3.3 per cent rise in wages over the same period. In fact, the average fund return is more than 5 per cent per annum in excess of wage rises for all 10-year periods, measured from the mid-1980s onwards.

“It is the return you get on your money in the long run that counts.” Murphy says.

Investors can realistically expect returns to exceed inflation by at least a few percentage points per annum over the long term, but not necessarily each year.





# CAVEAT EMPTOR — BUYER BEWARE!

The following article appeared in an Investment magazine in October. It echoes the comments we have made previous issues about the necessity to understand the difference between

- wholesale investments and retail investments
- ‘not for profit’ funds and “for profit” funds.

“The difference in fees between not-for-profit funds and their for-profit counterparts has become an article of faith for many in the superannuation game.

And it seems this faith is not misplaced, if the experience of one 25 year-old member of \*\*\*\*\* Lifetime Super Plan is any guide.

For the privilege of losing 8.5 per cent in the six months to 30 June 2002, the unfortunate member was charged a truly dizzying level of fees, which sadly enough are pretty standard across the retail world.

This included a contributions fee “of up to 4.5 per cent of each contribution”; an “effective administration fee” of 1.55 per cent per annum and an investment management fee of between 0.21 per cent and 1.28 per cent depending on which investment options were used.

On an account balance of about \$12,000, this adds up to almost \$500 in fees over a year, not including the insurance premiums or the \$6.50 per month the member was charged until their account balance passed the \$10,000 mark.

And although everyone in superannuation is agreed on the need for rigorous disclosure, nowhere on the member statement was the total amount of fees paid declared – although to be fair many not-for-profit funds also balk at disclosing this, even in percentage terms.

What’s interesting is that although \*\*\*\*\* could not bring itself to disclose the total cost of its services to the member – many of the charges were deducted prior to the calculation of unit prices – it was able to detail how much the member had paid in contributions taxes.

It is true the \*\*\*\*\* fund does offer a truly wide range of options – 45 different investment choices – but the member in question was unsure the array of choices was worth the fees.”

CSSF is of course a “not-for-profit” fund which provides access to “wholesale investments” to our members. Just the reverse of the above.

## Bereavement

We are very saddened to hear of the sudden death of Alan Patterson, on 9th November. Ever vibrant and energetic, he enriched the cause of education over a life-time career – more recently at Mowbray College and Trinity College, Melbourne University. It was a privilege to have known him and the thoughts of all at CSSF are passed on to his family.

## Personal Benefit Account P.B.A.

Four out of five members leaving service, now transfer/rollover their accumulated superannuation monies to the PBA, so we must be doing something right!

Through your PBA, you can:

- continue to make contributions (or not) personally, or through a New Employer;
- continue to select an Investment Option that suits your particular circumstances;
- continue some death cover (or not);
- draw down some money, as required (subject to the Preservation Rules);
- aggregate other superannuation accounts that you may have elsewhere;
- transfer to your new Employer, or to your own D.I.Y. Superannuation Fund;
- convert to an Allocated Pension, with all of the benefits that flow therefrom.

NB: 100% of your Account can be rolled over to the PBA without any deduction – in many external Funds deductions of up to 4% apply to the transferred amount.

Evidence that the system works well came to the fore earlier in the year when two Members who left teaching a few years ago to commence families, went back to work, re-transferred their accounts to their new (respective) Schools and, re-started their normal super, virtually seamlessly, and all at no cost.

# Summary for members re: status of choice of funds legislation

There have been a number of articles in the Press over recent months about the revival of “Choice of Fund” legislation, much of which presents the misleading impression that this is about to come into force. We asked our Solicitors, Allens Arthur Robinson, to prepare an article giving precise information as to where things are currently, so that Members are fully informed. Here is their summary:

“The choice of fund legislation is back on the Government’s agenda. The Superannuation Legislation Amendment (Choice of Superannuation Funds) Bill 2002 (the **Bill**) was introduced into the House of Representatives in June. This legislation will allow employees to choose where their superannuation contributions are paid.

The Bill provides that an employer is required to meet the choice of fund requirements where it provides superannuation support or makes contributions to a fund chosen by the employee in accordance with the provisions. Where an employee has not chosen a fund, the employer can select a default fund, which complies with the requirements set out in the Bill, into which contributions may be made on behalf of the employee.

The employee’s chosen fund must be an “eligible choice fund” as defined in the Bill. The ability for an employee to choose his or her

own fund into which an employer may make contributions will be offered by two processes:

1. An employer can opt for the formal process of requesting that an employee complete a “standard choice form”. The employee has 28 days from receipt of the form to make a choice of fund; or
2. The employee can advise their employer, in writing, of their chosen fund. If the employer accepts the employee’s choice of fund, it is required to provide the employee with written notice of its acceptance.

The Bill has a proposed commencement date of 1 July 2004. However, the future of the Government’s current choice of fund proposal is uncertain, as it is unclear whether the other political parties support all aspects of the proposal.”

## Legislation Paranoia

Articles in the press over recent months have highlighted problems in the financial world, and especially the involvement of APRA in the affairs of HIH.

Earlier in the year, legislation was introduced to tighten controls in the superannuation area, by which CSSF is required to obtain a license under the Financial Services Act. There is a 2 year “transition period” and CSSF are targeting mid-2003 as the period during which we will go through the application process.

In addition to this, more legislation has now been proposed requiring trustees of funds also to be licensed by 1st October 2005.

All of this has the very commendable aim of protecting the interests of members of superannuation funds, but the Government (and members) need to understand that not only does this add to the ever-increasing complexities of running a fund, but adds likewise to the associated costs.



## Pick the Index Competition

Our last Quarter's competition, to predict the S&P/ASX 300 Index closing figure at 31st July 2002 was won by **Bert Stewart** from **The Geelong College**. The index was 3037.8 and Bert's entry was the closest.

Here we go again.

As at 31st October 2002 the S&P/ASX300 Index was

# 3037.8

Fax this page before 15th January 2003 to Combined Schools Secretariat (03) 9640 0787.

CSS S&P/ASX 300 Index Competition

NAME: \_\_\_\_\_

SCHOOL: \_\_\_\_\_

PHONE: \_\_\_\_\_

My estimate of the S&P/ASX300 Index as at 31st January 2003 is:

The winner will receive a voucher for an all-inclusive "Dinner for Two" at a 5 star Restaurant of their choice and a one year subscription to Personal Investment Magazine.

## Member Investment Options – Unit Prices

The following are the respective Unit Prices for each Investment Option, as at 30 September 2002.

	Unit Price		%
	30/9/2002	31/12/2001	
Australian Shares	1.38744	1.50610	(7.87)
International Shares	0.79860	1.05728	(24.46)
Fixed Interest	1.18763	1.13521	4.61
Property	1.37708	1.29710	6.16
Balanced	1.15925	1.26014	(8.00)
Capital Stable	1.18139	1.18282	(0.12)
Ethical	1.06493	1.28125	(16.88)
Cash	1.15348	1.13085	2.00

# Best Wishes

to all our members  
for the  
**Festive Season**

## Attention, New Members

When you join CSSF, there is a strong likelihood that you will have at least one superannuation account (if not more) arising from your previous place(s) of employment. These will accrue fees which can be avoided by amalgamating all of these holdings into your CSSF account. There would have been a "Transfer Request Form" in your Welcome Pack, but if you don't have one, it is simply a matter of ringing Jane Hargreaves or Craig Mason at the Secretariat, and we will arrange everything for you.

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